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SUBJECT: BOLIVIA MINING -- UPDATE ON CERRO RICO

REF: 09 LA PAZ 1477

CLASSIFIED BY: John S. Creamer, Charge D'Affaires, Department of State, Embassy La Paz; REASON: 1.4(B), (D)

¶1. (C) SUMMARY. During a visit to the San Bartolome silver mine in the southern Bolivian city of Potosi, EconOff learned that the financial impact of the suspension of mining above 4400 meters is significant and is already impacting operations for Manquiri, a subsidiary of U.S. mining company Coeur D'Alane. However, cooperative miners continue to work above 4400 meters with no signs of stopping. Manquiri has made no progress in negotiations with the government of Bolivia (GOB) regarding the suspension, but is hoping that progress can be made now that national elections are over. END SUMMARY.

¶2. (U) EconOff visited the San Bartolome silver mine operated by Empresa Minera Manquiri, a subsidiary of U.S. mining company Coeur d'Alene, on December 1. San Bartolome is located on Potosi's historic Cerro Rico ("Rich Hill"). Manquiri started mining in June 2008 and is mining only loose material from the mountain. Half of Manquiri's deposits are above the 4400 meter mark where the GOB suspended surface mining activity in October (reftel). Unfortunately, that half contains more silver content than the lower half; deposits at the top of the mountain are close to 200g of silver per ton of rock/dirt, while those on the lower half are closer to 110g/ton. Manquiri had planned to mine from the top down. The restriction imposed by the GOB in October meant that Manquiri had to alter mining plans and begin mining the lower half of the mountain 2-3 years earlier than planned. Additionally, it greatly impacts cash flow, as Manquiri had hoped to use the higher grade material from the top of the mountain to more quickly pay off its \$240 million investment in San Bartolome. However, relatively good silver prices have helped them recently.

¶3. (C) The GOB claims to have restricted mining in order to preserve the shape of the Cerro Rico, seen as a national monument. However, the restriction is only on surface mining. There are 8 mining cooperatives that continue to operate 42 interior mines with entrances above the 4400 meter mark. In addition to these, various cooperatives or random day miners continue to mine surface material

above 4400 meters, with no repercussions or concern of reprimand. The political strength of the cooperative miners means that they can mine wherever they want without interference by the GOB.

14. (C) The GOB says that mining is restricted until the completion of a study about the geophysical impacts of the mining activity on the Cerro Rico. Manquiri officials say the study has been underway for years and is uncertain of when or if it will ever be completed. Additionally, UNESCO produced a report in 2007 that was favorable toward the San Bartolome project. Manquiri believes they are actually aiding in the prevention of the collapse of the mountain, as they are relieving pressure on the internal mines that have very haphazard support structures.

15. (SBU) Otherwise, Manquiri has a relatively normal relationship with the cooperatives. There are daily complaints and minor issues to be dealt with considering they are working on overlapping territory, but Manquiri works hard to keep things cordial. Manquiri has hired the cooperatives to conduct hauling services. The cooperatives run the trucks that bring the rock/dirt down the mountain to the Manquiri processing plant. In addition, in all of the space below 4400 meters, Manquiri has a joint venture with the state mining company COMIBOL and with the cooperatives. Manquiri has the rights for surface mining, while the cooperatives get a percentage of their royalties (4% is split between COMIBOL and the cooperatives) and have the rights for internal mining on the same land.

16. (C) COMMENT. Despite the political trouble, Manquiri continues its operations and hopes that things will be sorted out. Since Manquiri officials in La Paz believe the restriction on mining activity was a political move, they hope now that national elections are over they will be able to make progress with the new government. It is agreed by many in Potosi that the cooperative miners are likely doing more physical and environmental damage to the area than Manquiri, but are given amnesty due to their political power. As Manquiri told us months ago, they will continue to operate and be profitable as long as the rules of the game don't change further. If this suspension in activity becomes permanent Manquiri will likely get what they can out of the lower levels and then cut their losses and leave. END COMMENT.
Creamer